

Public Consultation Report: Interim Retail Payments Advisory Committee (RPAC)

July 29 & 30, 2020

Summary

The Interim Retail Payments Advisory Committee (RPAC) held its second meeting on July 29 & 30, 2020. Participants continued their discussion on current business practices for holding and safeguarding end-user funds and began to speak about operational risk concepts.

Who we consulted		
<p>Participants:</p> <ul style="list-style-type: none"> • Bank of Canada • Department of Finance • Moneris • Nanopay • PayPal • Paytm • Square • STACK (regrets) • Telpay • TransferWise • Visa • Western Union 	<p>Method of engagement:</p> <p>Virtual (Webex)</p>	<p>Purpose of engagement:</p> <p>To facilitate the Bank of Canada’s understanding of the retail payments ecosystem and current business practices of payment service providers (PSPs).</p>
What we asked		
<ul style="list-style-type: none"> • Participants were asked: <ul style="list-style-type: none"> ○ When the holding of end-user funds starts and ends; ○ If and how end-user funds are invested; ○ How they forecast future end-user funds to be held; and, ○ For feedback on operational risk concepts, which will continue into the next meeting. • Detailed questions of what was asked can be found in the discussion guide for this event. 		
What we heard		
<ul style="list-style-type: none"> • The proposed interpretation for holding funds is generally accurate, but some participants expressed concerns about the use of the term “indebted” and making sure the difference between holding end-user funds and enabling this function is accounted for in the oversight framework. • Whereas the simplified payment flow in the discussion note is accurate for some participants, it is not representative of all PSPs’ operations as they relate to holding of end-user funds. 		

- Key factors that could alter the payment flow include: aggregating payments, pre-funding/extending credit, payment transactions requested by end users, and the use of agents or mandataries.
- Receipt of funds is a good indicator that a PSP has begun holding end-user funds, whereas PSP-initiated payments messages / instructions are a good indicator that a PSP no longer holds those end-user funds.
 - Participants expressed the importance of clear guidance for when obligations to safeguard end-user funds begin and end, particularly if safeguarding requirements would apply where a PSP pre-funds, or extends credit, for transactions prior to receiving end-user funds from the payor.
- Traditional payment systems and regulated financial institutions have rules in place to safeguard end-user funds as they are being processed, cleared, or settled.
- Most participants invest end-user funds, primarily in low risk, liquid products and that considering credit, liquidity, and foreign exchange risk would be typical business practice.
 - Participants use their financial institutions to operationally make these investments.
 - Participants indicated investment activities are typically regulated by local laws, and therefore alignment of requirements with international standards would be preferred.
- Participants typically forecast both their liquidity needs and the amount of held end-user funds on a three to 12-month time horizon.
 - Participants have arrangements to access additional liquidity if the volume of payment requests exceeds what has been forecasted. Ease of access to these arrangements would depend on a PSP's size or growth prospects.
 - From an operational perspective, the total amount of end-user funds held would be known to a PSP at the end of each business day.
- Participants communicated a strong preference for operational risk requirements that are consistent with international standards. Most participants currently follow ISO 27001 and/or the Payment Card Industry Data Security Standards (PCI)
- Participants reiterated that operational risk management requirements should be clear but balanced with the need for flexibility/optionality (e.g., to achieve objectives in different ways).

What happens next

- The Bank of Canada will continue to support Finance Canada in developing options relating to safeguarding end user funds and managing operational risk under the Retail Payments Oversight Framework.
- Some participants will share, on a confidential basis, with the Bank more information on their payment flows, and the Bank of Canada will take these flows into consideration for future policy work.
- Discussion relating to operational risk concepts will continue at the next RPAC meeting.